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Industry, Tourism and Investment

NWT Economic Trends

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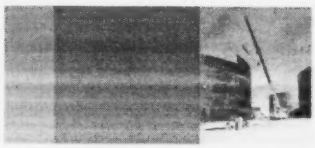
NWT Fuel Prices, August, 2006



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The world has experienced sharp increases in the price of fuel for a couple of years now; the NWT has not been immune to this. There are many factors that contribute in determining what the price of fuel including production costs, geopolitical concerns, uncertainty of the hurricane season in the US, climate and transportation costs.

When comparing fuel prices between communities, Yellowknife had the lowest prices for both gasoline and automotive diesel at $1.179 and $1.099 per litre. Hay River had the lowest prices for heating diesel and propane ($0.948 and $0.667 per litre respectively).

The price of natural gas in Inuvik and Norman Wells are calculated using different methods. In Inuvik, the natural gas price is based on Enbridge's estimated cost of heating oil for the coming year. This price is then adjusted to a gigajoule charge less approximately 15%. In Norman Wells, the cost of gas is determined by a contractual arrangement that is reviewed each year. The cost is the estimated average Alberta Reference Price per 1,000 cubic feet during the forecast period plus an adjustment for forecast error in the previous (current) period less $1/GJ. The deduction reflects the fact that no significant gas transmission costs are involved to get the gas to the local gas distribution system.

Note: In Inuvik, gas prices are set by an agreed formula and reflects the fact that Inuvik Gas has to recover approximately $45 million in capital investment. These funds were used to build the infrastructure associated with providing natural gas to the community.

Table One: NWT Fuel Prices; August, 2006

Community	Gasoline (Regular)	Motive Diesel ($/Litre)	Natural Gas ($/GJ)	Heating Diesel ($/Litre)	Propane ($/Litre)
Yellowknife	1.179	1.099	N/A	0.970	0.685
Hay River	1.250	1.210	N/A	0.948	0.667
Inuvik	1.400	1.340	16.700	1.069	N/A
Norman Wells	1.445	1.412	12.990	1.200	N/A

Source: ITI - Monthly Fuel Survey, August 2006

*** The Department of ITI misquoted the price of natural gas for Inuvik in volume 8 of Economic Trends. ITI apologizes for any confusion that this may have caused.*

Northwest Territories Industry, Tourism and Investment

(867-873-7361)
http://www.gov.nt.ca/iti/iea/index.htm

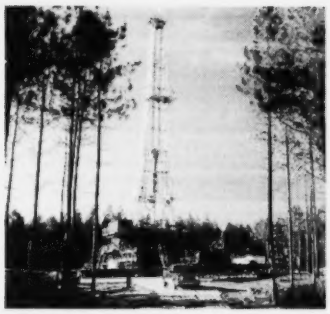
Banking and Internet Services in the NWT

Table Two: Communities in the NWT with Limited Banking Services

	Full-service Branch or ATM	Cash Machine	*Level of Postal Service	Internet banking (community bandwidth)
6 communities have full banking services (serving 73% of NWT population)				
Yellowknife	yes	major banks / 3rd parties	Full	Fiber
Hay River + Reserve	yes	CIBC, RBC / 3rd parties	Full	Fiber
Inuvik	yes	CIBC / 3rd parties	Full	3MB/6MB
Fort Smith	yes	BMO / 3rd parties	Full	Fiber
Fort Simpson	yes	CIBC / 3rd parties	Full	high speed
Norman Wells	yes	CIBC / 3rd parties	Full	high speed
6 communities have no banking services (2% of NWT population)				
Nahanni Butte	---	---	---	high speed
Tsiigehtchic	---	---	---	256k
Jean Marie River	---	---	---	high speed
Kakisa	---	---	---	high speed
Trout Lake	---	---	---	high speed
Detah	---	---	---	T1
The remaining 20 communties have limited banking services (25% of NWT population)				
Aklavik	---	Interac at Northern Store	Full	256k
Deline	---	Interac at Northern Store	Full	high speed
Fort Good Hope	---	Interac at Northern Store	Full	high speed
Fort Liard	---	Interac at Northern Store	Full	high speed
Fort McPherson	---	Interac at Northern Store	Full	256k
Fort Providence	---	Interac at Northern Store	Full	high speed
Fort Resolution	---	Interac at Northern Store	Full	high speed
Rae-Edzo	---	Interac at Northern Store	Full	high speed
Tuktoyaktuk	---	Interac at Northern Store	Full	T1
Tulita	---	Interac at Northern Store	Full	high speed
Holman	---	Interac at Northern Store	Full	128k
Wha Ti	---	Interac at General Store	Non-Accounting	256k
Colville Lake	---	Interac at COOP	Non-Accounting	high speed
Lutselk'e	---	Interac at COOP	Non-Accounting	256k
Enterprise	---	ATM at Twin Falls Inn	Non-Accounting	high speed
Rae Lakes	---	Interac at General Store	Non-Accounting	64k/128k
Sachs Harbour	---	ATM at COOP	Non-Accounting	128k
Wekweti	---	Interac at General Store	Non-Accounting	64k/128k
Wrigley	---	Interac at General Store	Non-Accounting	high speed
Paulatuk	---	Interac at General Store	Full	256k

Source: ITI

* *Non-Accounting refers to inability to send Postal Money Orders (No exchange of money)*
** *High speed refers to Netkaster High Speed Satellite*
*** *All communties have access to high speed internet services with varrying costs via Xplornet*



2005 Gross Domestic Product

Statistics Canada has just recently released preliminary 2005 estimates of provincial Gross Domestic Product (GDP), for Canada, the provinces and territories; Table 1 shows constant dollar GDP at market prices in chained (1997) dollars. This measure focuses on fundamental changes in goods and services produced, not changes in their prices. In this way, constant dollar GDP is a better, more representative measure of real economic growth.

While the NWT has been Canada's fastest growing economy over the past 5 years, economic growth last year slowed to 1.0%. This compares to a national average of 2.9% in 2005. Among provinces and territories, Alberta had the highest growth in 2005 at 4.5%, while Nunavut was the only jurisdiction to show a contraction, recording a -0.5% decline for 2005.

The slowdown in NWT growth originated with a significant decline in diamond export values. Overall there was a 35% decline in net exports – exports declined by $133 million (4.3%) and imports increased by $175 million (8%), resulting in a $308 decline in net exports. Overall diamond production is expected to recover with development of the NWT's third mine in 2006.

Table Three: Gross Domestic Product at Market Prices, 2004 and 2005 Millions of chained 1997 dollars

		2005	2004	Percent Change
Canada		1,157,446	1,124,428	2.9%
	Northwest Territories	3,876	3,838	1.0%
	Nunavut	858	862	-0.5%
	Yukon	1,247	1,206	3.4%
	British Columbia	144,028	139,205	3.5%
	Alberta	141,992	135,837	4.5%
	Saskatchewan	34,213	33,168	3.2%
	Manitoba	36,073	35,136	2.7%
	Ontario	483,253	470,026	2.8%
	Quebec	239,532	234,445	2.2%
	New Brunswick	20,967	20,867	0.5%
	Nova Scotia	25,553	25,271	1.1%
	Prince Edward Island	3,431	3,365	2.0%
	Newfoundland and Labrador	15,302	15,248	0.4%

Source: NWT Bureau of Statistics

2005 Gross Domestic Product (Con't)

GDP can be broken down by industry. Table 3 summarizes GDP by industry for the NWT, measured in chained (1997) dollars. The largest industry in 2005 was mining, which despite a 19.7% decline in sales over 2005, accounted for $1,835 million or 48.7% of total GDP. Public Administration was the second largest industry, accounting for $366 million, or 9.7% of total GDP.

It should be noted that the difference in the chained (1997) estimates in Table 1 (presented at market prices, where the value is $3,876), and Table 3 (presented at basic prices, where the value is $3,766) relates to 'taxes, less subsidies, on products', which is the difference between market price and basic price estimates.

Table Four: Gross Domestic Product at Bsic Prices by Selected Industry Millions of chained 1997 $'s

	2005	2004	Percent Change
All industries	3,766	3,727	1.0%
Agriculture, forestry, fishing and hunting	18	18	-0.6%
Mining and oil and gas extraction	1,874	1,994	-6.0%
Construction	392	323	21.2%
Utilities	40	39	1.3%
Manufacturing		8	---
Wholesale trade	48	44	7.2%
Retail trade	67	63	5.7%
Transportation and warehousing	144	141	2.2%
Information and cultural industries	94	92	2.6%
Finance and insurance, real estate, etc.	368	356	3.5%
Professional, scientific and technical services	44	42	4.8%
Administrative & support, waste management	33	33	0.3%
Health care and social assistance	130	129	0.7%
Education	111	108	2.4%
Accomodation and food services	48	47	1.9%
Other services	59	59	0.9%
Public administration	366	362	1.0%

Source: NWT Bureau of Statistics

Retail Sales in the NWT for 2005

Retail sales depend on consumer spending, which is influenced by a number of factors, including wages and population. As a result of high value industrial development, wages and personal incomes have risen significantly over the past five years. Between 2000 through 2005, retail sales in the NWT grew by 48% while labour income increased by 57%. Compared to the rest of Canada, only the province of Alberta enjoyed a higher growth rate in retail trade than the NWT. Over the coming year, growth could be negatively impacted by the NWT's recent population decline. However, development of two new diamond mines, along with the Mackenzie Gas Project, will significantly expand opportunities.

Table Five: NWT Retail Trade Growth, 2000-2005

Year		Sales		Year to Year Growth
2000		391,270		
2001		426,671		9.0%
2002		504,960		18.3%
2003		529,930		4.9%
2004		532,127		0.4%
2005		578,876		8.8%

Source: NWT Bureau of Statistics

Wholesale Sales in the NWT for 2005

While still a relatively small part of the NWT economy, wholesale businesses have grown in response to new mineral development. Sales in the industry tend to peak during the "resupply windows"; resupplying the mines in the North Slave region during the winter via ice roads and resupplying communities along the Mackenzie River and Arctic Coast during the summer via the barge system.

Wholesale sales in the Northwest Territories are closely linked to capital expenditures in the territory, most notably expenditures in the diamond and the oil and gas industries. Wholesale sales for the NWT from 2004 to 2005 increased from $193 million to $208 million, representing a growth rate of 7.7%. This was the first increase experienced by the industry since 2002 after two consecutive years of declining sales in 2003 and 2004.

With the DeBeers' Snap Lake project now in construction, future sales in the wholesale industry are expected to remain strong over the near future.

Table Six: NWT Wholesale Trade Growth, 2000-2005

Year		Sales		Year to Year Growth
2000		158,225		
2001		207,042		30.9%
2002		301,443		45.6%
2003		198,774		-34.1%
2004		192,702		-3.1%
2005		207,583		7.7%

Source: NWT Bureau of Statistics

Federal Food Mail Program

The Food Mail Program was introduced by the Government of Canada to lower living costs in remote, northern communities. It is administered by the Department of Indian and Northern Affairs Canada (INAC), which funds Canada Post for transporting nutritious, perishable foods to isolated communities via air transport.

The program provides the lowest postage rate for nutritious perishable foods. These foods, such as vegetables, fruit, bread, meat and milk, can be shipped as food mail for $0.80 per kilogram plus $0.75 per parcel (these rates have remained stable since July 1993). Non-perishable food and some essential non-food items can also be shipped under this program at higher postage rates. Foods of little nutritional value, such as pop and chips, are not funded. In 2003-2004, approximately 13,400,000 kilograms of food and other goods were shipped under the program.

Eighteen of the NWT's communities are eligible under the program including some of the highest cost communities in the NWT – Paulatuk, Colville Lake and Ulukhaktok. Individuals, community businesses and camps can benefit. The Food Mail Program could potentially save businesses and tourism operations in remote communities significant costs. INAC spent approximately $32 million to subsidize Food Mail service in 2003-2004. However, the program is under utilized in the NWT; NWT residents only used $1.1 million of the total, or about 3%. By comparison, consumers in Nunavut used $21 million in funding.

Savings under the program can be quite significant. For example, in the sample order below, the cost to a business is only around $183 compared to $154 in Yellowknife. The cost is the same for a business in Ulukhaktok, Paulatuk or Wekweeti. ***(Note: included in the cost is a packaging cost of $.75 per box or parcel)***

Table Seven: Federal Food Mail Program Example

Item	kg	Price	Unit	Number Purchased	Price in YK	Weight in kg's	Freight Food Mail	Community Price	% Over YK
Coffee	0.343	$2.49	package	4	$9.96	1.372	$1.10	$11.06	11.0%
Bread	0.570	$1.99	loaf	4	$7.96	2.280	$1.82	$9.78	22.9%
Milk	1.000	$2.49	carton	2	$4.98	2.000	$1.60	$6.58	32.1%
Eggs	0.240	$2.49	dozen	4	$9.96	0.960	$0.77	$10.73	7.7%
Yogurt	0.750	$3.59	tub	4	$14.36	3.000	$2.40	$16.76	16.7%
Oranges	2.270	$3.89	bag	2	$7.78	4.540	$3.63	$11.41	46.7%
Potatoes	9.070	$6.99	bag	1	$6.99	9.070	$7.26	$14.25	103.9%
Butter	0.454	$5.89	brick	3	$17.67	1.362	$1.09	$18.76	6.2%
Margarine	0.907	$4.89	tub	3	$14.67	2.721	$2.18	$16.85	14.9%
Cheese	0.689	$8.82	block	2	$17.64	1.378	$1.10	$18.74	6.2%
Broccoli	0.240	$0.98	kg	4	$3.92	0.960	$0.77	$4.69	19.6%
Beef Roast	1.000	$9.68	frozen	1.51	$14.62	1.510	$1.21	$15.82	8.2%
Turkey	1.000	$4.17	frozen	4.175	$17.41	4.175	$3.34	$20.75	19.2%
Chicken	1.000	$4.38	frozen	1.275	$5.58	1.275	$1.02	$6.60	18.3%
					$153.50	**36.603**	**$29.29**	**$182.78**	**19.1%**

Source: DIAND and ITI

Risk Capital Investment Tax Credit Program

The Government of the Northwest Territories established the Risk Capital Investment Tax Credit (RCITC) Program as a powerful tool for businesses to raise capital. The purpose of the program is to support NWT business and economic development by providing an additional source of risk capital. By offering an income tax credit there is an additional incentive for NWT taxpayers to invest patient risk capital in NWT businesses. The credit arising from the investment of risk capital in an eligible NWT business provides investors with a higher rate of return on their investment. Ultimately, this will promote and facilitate the healthy growth of NWT-based corporations, diversify and expand the NWT economy, and retain NWT investment capital in the NWT.

Since the introduction of the RCITC Program in 1998, $1.9 million in credits have been authorized. Until the end of 2007, the GNWT is provided with a maximum of $2 million each year in credits that it can authorize.

Businesses that are prepared to sell a minority interest to arms-length investors might consider the program to help finance expansion and growth. Companies with healthy outlooks will be of interest to investors qualifying for income tax credits. Active, privately held, taxable Canadian corporations that are based in the NWT and have the majority of their assets and staff located in the NWT may qualify as Eligible Businesses.

Minimum qualifications for an eligible business:

- Canadian owned
- permanent place of business in the NWT
- less than 500 employees
- 80 per cent of assets located in the NWT
- not publicly traded
- not financially related to investors
- registered as an Eligible Business or Territorial Business Corporation
- capable of issuing Eligible Securities

Eligible Labour and Employee Venture Capital Corporation Investments must:

- have less than $50 million in assets
- provide at least 50 per cent of wages to NWT residents
- have at least 50 per cent of workforce in the NWT

Eligible Community Venture and Direct Investment Capital Corporations must have:

- less than $100 million in asset
- a minimum of 75 per cent of wages going to NWT residents
- at least 75 per cent of workforce in the NWT

Tax credits are only available for securities purchased from corporations or venture capital corporations registered under the Act. Business and investment plans for Territorial and Venture Capital Corporations must be submitted to the Program Administrator for registration.

A minimum investment of $25,000 raised from a minimum of five non-related investors is required to qualify for the investor tax credit. The upper limit is a $3 million investment raised in one year or a total of $6 million over six years. There is also a limit on the volume of NWT credits available each year. Credits are allocated on a first in/first out basis .

Why invest in a northern business?

Northern businesses are an essential part of healthy communities, creating and maintaining jobs and providing goods and services. Building a business takes imagination, patience, and often raising investment dollars through the sale of a minority interest to arms length investors. The RCITC Act provides an incentive for northern residents to help build and share in the rewards of the development of a viable economy in their community and their Territory.

Risk Capital Investment Tax Credit Program (Con't)

Investors who purchase eligible securities may receive tax credit certificates which can be applied against their Territorial Income Taxes payable.

Tax credits can amount to:

- a one time 30 per cent credit on investment of up to $100,000 for an individual; and
- a one time 15 per cent credit on an investment of up to $200,000 for a corporation, and can be carried back three years or forward seven years.

Individual investors may also be eligible to include the purchased investment in a self-directed RRSP to earn additional credits.

Investors must purchase the securities for cash and be prepared to hold the securities for either five years, in the case of direct investment and community venture capital projects, or for eight years for employee and labour venture capital projects.

A Public Registry of Eligible Business and Territorial Business Corporations is maintained by the GNWT's Department of Finance. You may also wish to consult with your accountant and investment advisor.

Potential investors are encouraged to seek their own independent professional financial and legal advice prior to investing. The *RCITC Act* does not provide guarantees of current or long-term value of proposed investments.

Eligible investors are:

- NWT taxpayers with sufficient income to benefit from an income tax credit;
- a group of employees of an Eligible Business;
- a group of community residents;
- corporations with taxable income in the NWT.

Eligible investors:

- cannot be involved as, or related to, a director or major shareholder of the business seeking funds
- must be willing to hold their investment for a minimum of five to eight years.

Further information on the RCITC Program can be obtained by contacting the Program Administrator at:

Carron Business Services Ltd.
Apt. 401, 4503 52 Ave.
Yellowknife, NT X1A 3Y4
Tel: (867) 873-9804
Fax: (867) 920-4817
email: carron@theedge.ca

Or by visiting the RCITC Program website at http://www.fin.gov.nt.ca/riskcapital/

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